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The GATT Midterm Review and Agriculture:

Prospects for Trade Reform in the Uruguay Round

by

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On December 5–8, 1988, the 97 members of the General Agreement on Tariffs and Trade (GATT) will meet in Montreal for the Midterm Review of the Uruguay Round of multilateral trade negotiations. Central to the success of the Uruguay Round are the negotiations on agriculture. At no time since the end of the Second World War has agriculture been as high on the agenda of multilateral trade discussions.

The countries involved in the launching of the Uruguay Round in September 1986 made commitments on agriculture that were a collective acknowledgement of the seriousness of the sector's global trade problems. Escalating agricultural trade conflicts among the major trading countries have generated enormous instability in the global trading arena and impose a tremendous cost on consumers and taxpayers. Worldwide spending on agricultural programs, which now totals over $200 billion,[1] has not resolved the fundamental farm problems in the advanced industrial countries. It has also accentuated the difficulties of many of the less-developed countries, where malnutrition, hunger, and massive external debts still persist.

Ironically, the recent decline in global grain stocks and the rise in grain and oilseed prices have reduced the pressure for agricultural trade reform. Higher prices have lowered export subsidies and have slowed, at least temporarily, the unsustainable budgetary hemorrhage in the United States and European Community (EC). Still, the need for fundamental reform in global agricultural policies persists; the basic problems inevitably will reappear when surpluses and lower prices return.

The agricultural trade war has had an enormous effect on Canadian agriculture, particularly on the grains sector. Because exports constitute a larger share of agricultural production in Canada than in Europe or the United States, Canada is particularly vulnerable to weak food prices and global oversupply. The most visible impact of global grain surpluses and export subsidy battles on the Canadian grain industry has been the drastic drop in grain prices and the increasing public costs of special relief programs designed to compensate farmers for that damage.

The less visible, but equally destructive, consequences of events during the 1980s have been

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the growth of farm debt, the erosion of land values, equity, and savings, and a significant disinvestment in the farm business.

The only viable solution for the Canadian farm crisis lies in a global trading framework within which agricultural trade is governed by a set of transparent, fair, and predictable trade principles — where agricultural trade is based, insofar as possible, on competitive efficiency and comparative advantage. The bilateral trade agreement with the United States, although an important component of Canada's two-track approach to trade, has only a limited capacity to deal with global farm subsidies.

Fairer and freer trade in agriculture will depend on a breakthrough in the Uruguay Round negotiations aimed at bringing agriculture under the GATT framework of international trading rules. Of course, the achievement of this will mean significant changes in the domestic agricultural policies of most trading countries, including Canada. The purpose of this *Trade Monitor* is to examine the prospects for success in the agricultural negotiations in the Uruguay Round. It begins with sections examining the extent of agricultural trade distortions and the concepts used for measurement of agricultural support measures. It then details the negotiating positions of the major parties and considers various strategies for reform. The final section comments on the likelihood that significant progress in agricultural trade reform will be achieved during the Uruguay Round.

A General Profile of Agricultural Support Measures

Few countries can plead innocence with respect to the use of trade-distorting farm policies. Each of these measures is a result of a specific national policy, often the product of a controversial debate over domestic agriculture that has been resolved through political compromise.[2]

Current agricultural trade barriers may be classed in two major categories: import barriers to trade and export trade distortions.

Import Barriers to Trade

Import barriers to trade protect a domestic farm industry from foreign competition. These barriers include a wide variety of measures: licensing, quotas, tariffs, health standards, variable import levies, minimum import pricing, voluntary restraint agreements, countervailing and antidumping duties, and a range of other import contingency devices and regulations.

The general significance of agricultural import barriers to trade can be illustrated by drawing on examples from the EC, the United States, Japan, and Canada.

The European Community. The most important import trade restriction in the EC is the variable import levy. This is essentially the difference between the EC threshold price — which is higher than the price domestic producers are paid — and the world import price of a commodity. Regardless of the selling or offer price, the variable import levy forces the exporter of a given product to the EC to "sell" at a price equivalent to or above the EC threshold price.[3]

For example, the EC variable import levy for U.S. No. 2 Soft Red Winter Wheat — CIF Rotterdam basis — amounted to U.S.$103 per tonne in the 1978–79 crop year, and U.S.$76 per tonne in 1983–84. In some years, the variable import levy was actually higher than the world price of wheat, a clear indication of the relatively high price support for wheat producers within the EC. In the 1988–89 crop year, the Canadian Wheat Board's initial price for the highest grade of wheat was roughly 65 percent of the price within the EC for the same grade.

The United States. The United States has persistently pressed for a more liberal agricultural trading system. Despite this fact, it has also developed a variety of import trade restrictions and contingency laws that, under certain circumstances, can be used to restrict farm product imports into the United States.

One of the more prominent U.S. restrictions relates to the 1955 GATT waiver for Section 22 of the U.S. *Agricultural Adjustment Act of 1933*. This legislation provides for border controls (mainly quotas) to protect the ability of the U.S. government to carry out mandated agricultural price support policies.

Japan. With the highest level of agricultural protection in the world, Japan has a wide range

of trade-restricting policies and laws. Examples include the food control law, the sugar price stabilization law, and the law concerning price stabilization of livestock products. These laws are reinforced by more general trade policies and programs such as state trading, import quotas for beef, countervailing duties for pork, specific duties, domestic variable levies, and standard import-pricing measures.[4]

Canada. In addition to a wide range of duties on imported agricultural and food products, Canada has a large number of policies and measures that can be used to restrict agricultural imports.[5] Canadian import restrictions include the Canadian Wheat Board's mandate to license all imports of wheat, oats, and barley and their products, and import quotas established to maintain supply management regimes in the poultry, egg, and dairy sectors.

Export Trade Distortions

In recent years, the most serious agricultural export trade distortions have resulted from measures generally described as "export enhancement programs." These include export restitutions and subsidies, commodity export bonuses, favorable trade credit arrangements, subsidized trade credits, barter trade, long-term bilateral agreements, subsidized transportation and shipping arrangements, sales for local (nonconvertible) currencies, and some food aid programs.

While few of the agricultural-surplus-producing countries do not have some form of export-trade-distorting programs, the EC and the United States best illustrate the gravity of the situation that has been developing in recent years.

The European Community. Although the provision for agricultural export restitutions and the means of financing them have long been a part of the EC Common Agricultural Policy (CAP), their use has been increasing since the early 1970s. The cost of export subsidies has constituted anywhere from one-third to one-half of the EC's agricultural budget during the past decade.

Two factors have a direct effect on the size of the export subsidies the EC pays on the export of its surplus products: U.S.-EC foreign-exchange rates and the U.S. (world) price of grain relative to the EC's domestic price supports. The EC has reduced its export subsidies in recent months, not by any direct action it has taken, but because of rising world prices. Despite this recent respite, export subsidy programs, and undoubtedly the inclination to use them, remain very much intact in the EC.

The United States. With the enactment of the *Food Security Act* in 1985, the United States announced its intention to become more aggressive in international markets. The main provisions of the act were to lower the U.S. loan rate for domestic crops, to develop targeted export enhancement programs (EEPs), and to augment export credit and food aid programs.[6] By 1986, for example, over 60 percent of U.S. wheat and flour exports were supported through food aid, export credit programs, and EEPs. Between October 1, 1987, and March 31, 1988, EEP sales consisted of about 17 million tons of wheat, more than 1 million tons of barley, and smaller amounts of malting barley, dairy cattle, flour, frozen poultry, rice, sorghum, table eggs and vegetable oil.[7]

Of concern to Canadians is that the United States has targeted many of Canada's traditional markets, including Algeria, China, Egypt, India, and the Soviet Union, for subsidized grain exports.

Given the scope and magnitude of the export enhancement and export subsidy programs that both the EC and the United States support, it is clear why there has been increasing conflict between these two major exporters of agricultural commodities.

Country studies of national agricultural policy and trade conducted by the Organisation for Economic Co-operation and Development (OECD) indicate that many other countries, besides the EC and the United States, are involved in various forms of EEPs. Canada, for example, has employed export credit programs for wheat and barley, while some countries view the annual Western Grain Transportation payment to the railways as a form of export subsidy. The United States has based its decision to place a countervailing duty on Canadian hog exports to that country on the judgment that some of Canada's

Table 1

Producer Subsidy Equivalents by Country, 1979–86

(as a percentage of producer income)

	1979	1980	1981	1982	1983	1984	1985	1986
Australia	10.3	11.5	12.3	16.6	13.5	12.8	15.3	15.3
Austria	37.2	35.1	36.8	36.3	40.6	36.5	34.1	n.c.
Canada	23.7	23.5	23.5	25.8	27.7	31.9	39.6	45.7
European Community[a]	44.3	36.4	31.7	32.6	34.2	31.4	39.7	49.3
Japan	64.3	54.3	53.1	59.4	63.3	64.9	66.7	75.0
New Zealand	14.9	15.7	22.8	27.4	35.3	17.3	19.0	31.1
United States	14.7	14.5	17.7	17.1	26.5	23.3	26.1	35.4
Average[b]	32.9	28.3	27.5	28.1	33.1	31.3	36.3	47.0

n.c. = not calculated.

[a]All present members of the EC except Portugal and Spain.

[b]Weighted average of the countries that appear in the table.

Source: Organisation for Economic Co-operation and Development, *Monitoring and Outlook of Agricultural Policies, Markets and Trade* (Paris, May 1988).

domestic programs were, in effect, a form of trade-distorting subsidy.

Nontariff Barriers to Trade and the Measurement Problem

Essential to achieving any progress in agricultural trade reform is some consensus on the measurement of agricultural support measures, most of which take the form of nontariff barriers to trade. Negotiations with respect to nontariff barriers present a particularly difficult measurement problem. In tariff negotiations, it is relatively easy to quantify the extent of the protection tariffs provide. It is difficult, however, to find a common denominator for a mix of nontariff barriers such as the variable import levy in the EC; the standard import-pricing program in Japan; protection provided to U.S. dairy farmers under Section 22 of the *Agricultural Adjustment Act*; Canada's import quotas associated with national supply-management programs; and a production-input subsidy to farmers in Australia.

The OECD and the United States Department of Agriculture (USDA) have undertaken one approach to the measurement of the cost of agricultural policies. This approach is based on concepts referred to as "producer subsidy equivalents" (PSEs) and "consumer subsidy equivalents" (CSEs). Although the PSE/CSE concepts will not necessarily form the only basis for multilateral negotiations, most previous comprehensive analyses of national agricultural policies have employed these measures.

A producer (or consumer) subsidy equivalent is generally defined as the level of subsidy — in terms of a direct income payment — that would be required to compensate agricultural producers (or consumers) for the removal of current government programs. The PSE (or CSE) can be further defined as a ratio between the total value of policy transfers to producers (or consumers), and total producer agricultural income — that is, cash farm receipts plus net direct payments (or total consumer expenditures for the agricultural commodity).

PSEs and CSEs can be either positive or negative. A positive PSE occurs where producers receive a direct payment from government. A negative PSE occurs when, for example, producers receive less than the competitive market price for their product. Similarly, a positive CSE results when food is subsidized below the competitive market price. A negative CSE results when, because of an import quota, con-

Table 2

Producer Subsidy Equivalents by Commodity and Country, 1984-86

(as a percentage of producer income)

	Canada	European Community[a]	Japan	United States	Average[b]
Wheat	41.1	36.3	97.7	44.3	40.5
Coarse grains	42.1	26.4	98.1	30.0	30.1
Rice	n.c.	68.0	85.9	61.0	84.4
Soybeans	n.c.	58.5	84.0	10.1	13.0
Other oilseeds	29.5	35.7	n.c.	n.c.	33.6
Sugar (refined equivalent)	36.8	74.7	71.8	76.0	70.8
Milk	96.7	55.8	81.8	66.3	63.0
Beef and veal	15.6	53.0	55.4	9.4	30.4
Pigmeat	5.0	6.2	40.1	6.4	10.6
Poultry	17.4	26.9	15.9	9.9	16.2
Sheepmeat	n.c.	63.0	n.c.	7.8	52.6
Wool	n.c.	n.c.	n.c.	68.5	12.1
Eggs	4.7	17.8	19.0	7.2	14.2
Crops	39.7	40.9	46.2	25.9	34.8
All products	39.2	40.0	68.9	28.2	38.4

n.c. = not calculated.

[a]All present members of the EC except Portugal and Spain.

[b]Weighted average of the following: Australia, Austria, Canada, the European Community (except Portugal and Spain), Japan, and the United States.

Source: Organisation for Economic Co-operation and Development, *Monitoring and Outlook of Agricultural Policies, Markets and Trade* (Paris, May 1988).

sumers pay more than the competitive world price for the product.

The OECD has estimated the support agricultural producers in a number of countries receive (see Tables 1 and 2).[8] The results show significant increases in agricultural support levels in all countries between 1979 and 1986. Japanese and EC subsidy levels are the highest in the sample, while those of Australia and New Zealand are the lowest. While Canada's PSEs traditionally have been in the middle range of the OECD countries, they have risen in response to foreign subsidy increases in recent years and now approach levels in the EC.

While the PSE does provide a general measure of the relative importance of government (and consumer) support for agriculture through a great variety of programs, one must exercise some caution in the interpretation and use of this measure.[9] The PSE depends on concepts, definitions, and measurement standards used to quantify a multitude of support programs available to farmers. These are difficult to define at the best of times. In addition, a PSE can have a wide variation in absolute terms, thus making comparisons between countries difficult. For example, if agricultural producers in country A had an average total income of $30,000, a PSE of 50 percent would mean that $15,000 of that income came from government payments or transfers from consumers. In country B, with an average total income per producer of just $16,000, a PSE of 50 percent would mean that $8,000 came from government or consumers. The usefulness of the PSE is limited still further by the impact of

changing foreign exchange rates, and by the fact that the PSE does not distinguish between domestic policies which may be trade distorting and those which are trade neutral in effect.

The PSE/CSE concepts represent a significant start on a difficult task; other measures are being developed. Agreement on the measurement issue, a critical first step in agricultural trade reform, has yet to be achieved in the GATT negotiations.

Basic Negotiating Positions on Agriculture

This section examines the initial negotiating positions of four key agricultural traders: the EC; the United States; Japan; and the Cairns Group.

The EC's Position

The EC's negotiating proposal indicates an unwillingness either to sacrifice the basic principles underlying its CAP or to reduce significantly government's role in agriculture. The importance of farming to European society in general, and to rural communities in particular, is a recurring theme of the EC proposal.

The proposal calls for reductions in national agricultural subsidies, although it identifies no precise timetable. It recommends the replacement of commodity-based price and other supports with direct income payments to producers, made independently of production decisions. The EC also leans in the direction of "managed" trade by suggesting some form of market-sharing arrangement in the short term.

In contrast to the United States, the EC omits any specific focus on export subsidies and, while agreeing that national farm subsidies create trade difficulties, it argues that the subsidies should be phased down, not eliminated, over an indefinite period of time.

The United States' Position

The underlying premise of the United States' proposal to reduce subsidies to zero by 2000 — the "zero-2000" proposal, as it is commonly referred to — is that trade should be based on comparative advantage and a competitive market system.

The major component of the U.S. position is a complete phaseout over ten years of all import barriers, export subsidies, and national subsidies directly and indirectly affecting trade.

The U.S. position, in calling for explicit commitments over a fixed period of time, is the most ambitious of the negotiating proposals.

Japan's Position

In general, Japan proposes that its major western trading partners freeze and then phase out agricultural export subsidies over a fixed period of time to be agreed on through negotiations. But the Japanese plan draws a sharp distinction between domestic subsidies needed for food security and export subsidies that, by their nature, are obstacles to the stability and expansion of trade in agriculture.

The Japanese proposal leaves room for import restrictions to be included in the negotiations, but stresses that market forces must be balanced with the need both to guarantee national food security and to recognize the unique social aspects of rural communities in each country.

Japanese support for the phasing out of agricultural export subsidies, while important in the GATT negotiations, hardly represents a *quid pro quo* for the retention of its import controls. There is little question that the major exporting countries will press Japan for further concessions on its import controls and restrictions.

The Cairns Group's Position

The Cairns Group was formed by 13 countries that met at Cairns, Australia, in August 1986 to discuss an approach to the Uruguay Round of multilateral trade negotiations. The 13 countries are Argentina, Australia, Canada, Chile, Colombia, Brazil, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

The Cairns Group, which refers to itself as the "Alliance of Fair Traders," has developed a strategy that, in effect, represents an opposing balance to the agricultural trading policies and practices of the EC and the United States.

The Cairns Group's original negotiating position, developed in October 1987, was based on the following three-phase plan:

- an initial freeze or moratorium on domestic agricultural support and export subsidies;
- a 10-year plan for the gradual reduction and reform of national farm support and trading practices; and
- the development of a framework of rules governing international agricultural trade to come into effect at the end of the 10-year reform program.

Achieving consensus on phase two, the reform program, has been the focus of negotiation among members of the Cairns Group over the past year. Negotiations have focused on the development of a common measure of the diverse policies that have distorted consumption, production, and trade. While the Cairns Group adopted the PSE as a starting point, it had reservations about the limitations associated with this measure. Canada, in particular, stressed from the outset the need to focus on trade-distorting policies and programs and suggested, accordingly, that a separate measure called the Trade Distortion Equivalent (TDE) be developed for the purposes of the trade negotiations.

In a subsequent document released in July 1988, the Cairns Group reaffirmed the basic positions developed in its original negotiating proposal, and elaborated on its proposed "framework approach" to the Midterm Review of the multilateral trade negotiations.

The July 1988 proposal calls for a 10 percent cut in trade-distorting agricultural support programs in each of 1989 and 1990. Exactly how this reduction in support would be achieved in each country, however, has been the subject of some debate within the Group. An initial draft of the proposal reportedly called for across-the-board cuts in all trade-distorting subsidies, which would have posed problems for highly protected sectors in some countries, such as the dairy industry in Canada.

The final compromise proposal reflects the "aggregate" approach put forward by Canada, which would allow individual countries to decide where the cuts would occur to achieve 10 percent reductions in overall levels of farm support. When the Cairns Group released its July 1988 document, Canada's federal Minister of Agriculture stated that the Group's proposals would not undermine Canada's control over the operation of national supply-management programs, as provided for under GATT rules.

The difficulties in achieving a consensus on agricultural trade reform proposals, even among the Cairns Group of like-minded countries, are indicative of the major challenges to be faced in the broader multilateral arena. For Canada, the negotiations within the Cairns Group made clear the type of tradeoffs and choices that will be necessary if it is to make a meaningful contribution to the reform process.

Possible Strategies for Reform

Moving from the tabled negotiating positions to freer and fairer agricultural trade will be a difficult process, given the fundamental differences apparent in the objectives and commitments of the four major negotiating parties.

Before evaluating the prospects for reform, however, it may be useful to examine the reform process itself and how it is likely to evolve. Success in achieving reform, if possible at all, undoubtedly will depend on some combination of the following four reform strategies: confrontation and retaliation; the competitive-market solution; market management; and incrementalism.

Confrontation and Retaliation

The confrontation-and-retaliation approach to agricultural trade policy reform, like military warfare, basically involves a struggle between and among protagonists. Given the destructive forces associated with modern military warfare, it is acknowledged that a full-scale conflict would destroy the aggressors, the besieged, and innocent parties alike.

In many ways, confrontation and retaliation have characterized agricultural trading relationships during the past decade. The cost of the agricultural trade war has been enormous and peace is not in sight. The pre-emptive strikes, increasing conflicts, and mounting casualties that have marked the global agricultural trade scene since the end of the Tokyo Round in 1979 have all the earmarks of a war — if not a catastrophic war, certainly one of attrition.

In some ways, the announcement of the Uruguay Round in September 1986 was a call for mutual disarmament. There was a collective

recognition by the GATT members that the global political and economic instability that will almost certainly result from an agricultural trade system built on anarchy and a continuing war of attrition — where political and fiscal power determine the outcome of global events — is not acceptable.

If confrontation and retaliation are not acceptable alternatives, what other approaches to trade reform are feasible and acceptable?

The Competitive-Market Solution

The competitive-market solution is the basis on which traditional trade theory has been developed. This is the general premise underlying the Articles and Principles of the GATT, and it is the general framework within which the United States presented its initial agricultural negotiating position to the GATT in 1987.

On economic grounds, one can make a powerful case for a more market-oriented trade policy. The lack of market orientation in agricultural trade policy has led to some bizarre and irrational farm policies, and to results that are enormously costly and increasingly unacceptable. On the positive side, a market-oriented trade policy serv es to impose international discipline on the efficient use of resources among countries, and provides the basis for the systematic integration of national farm policies with the international marketplace.

A market-oriented trade policy, however, calls for the dismantling of many existing national agricultural policies — policies which have been developed to protect farmers' prices and incomes. Basically, greater market discipline in agricultural trade means, to a substantial degree at least, placing national farm policies in a subordinate position to market-determined trade policies. It is not conceivable, in the short term at least, that many national governments have the will or political capacity to undertake a reform of this scope or magnitude.

This political difficulty could be resolved, in part, by decoupling farm income support from particular commodities or production practices. Decoupling would be achieved when government support that a producer receives has no direct connection with or direct influence on production decisions. Decoupling does not necessarily preclude some form of direct payment to an individual producer, providing that the support payment does not interfere with the producer's decision on what and how much to produce or with the consumer's decision on how to allocate a food budget among various food products. The decoupling definition, by implication, indicates that resources in farm production (and food consumption) should be allocated in accordance with the competitive forces of demand and supply in the marketplace.

The objective of decoupling would be to convert present commodity price support programs into the equivalent of some form of direct income payment to producers. This would continue to ensure support to producers, while leaving the allocation of agricultural resources to the market system. In this way, the market system essentially would dictate the nature of international production, trade flows, and prices. Accordingly, this new framework would eliminate the need for border restrictions, export subsidies, and other forms of trade-distorting devices that have multiplied during the past two decades.

There will be national political issues connected with decoupling, but it is a concept that deserves serious consideration by all countries participating in the Uruguay Round of GATT negotiations. Decoupling represents a compromise between a more market-oriented trade policy on the one hand, and the ability of countries to protect the incomes of their farmers on the other.

The Managed-Market Approach

While the EC's initial negotiating position, tabled with the GATT in 1987, recognizes the need for greater "market signals" in agricultural trade, the EC emphasized the need for some form of market-sharing arrangement coupled with an agreement by major exporters to manage agricultural production and trade.

This is not the first time that the EC has advocated this approach in multilateral trade negotiations.[10] It made similar proposals during the Kennedy and Tokyo Rounds, only to have them rejected by the United States and other parties anxious to see more fundamental changes to the CAP.

Not only do those who are most serious about trade reform dismiss a managed-trade approach, but it is also difficult to implement such arrange-

ments. In previous attempts to manage trade in the grains, dairy, and bovine meat sectors, it was found that although the arrangements were useful fora for the exchange of information, they were an ineffective means of exercising discipline over international commodity prices and markets.

The Incrementalist Approach

The incrementalist approach is a far from satisfactory way to trade reform from an economic point of view, but may be a feasible one from a political standpoint.

An essentially incrementalist approach has achieved major tariff reductions over a period of nearly 30 years. The reduction of nontariff barriers to trade, however, will be a far more complex task than that associated with tariff negotiations.

Several interesting variants on the incrementalist approach to trade reform have emerged recently. One is the "quota auction,"[11] which would operate as follows. Quantitative restrictions in the form of quotas would be auctioned off annually to potential suppliers (exporters) of the product. The revenue from the auction would then be used to help the "protected industry" in the importing country to adjust to a more liberalized trade situation. Over time, more quotas would be auctioned, which would reduce the annual value of the receipts and, hence, the protection available in the importing country. Negotiations would focus on the size of the initial quota for each country, the agreed amount of the phasedown over a specified period, and whether the quota would be phased out entirely or reduced to some specified minimum level of protection.

Given the scope and magnitude of current agricultural trade problems, incremental change, even if in the direction of more liberalized trade, would mean the reduction of current costs and trade distortions only over a long time — not much consolation for those countries badly hurt by the trade conflicts. The escalation in trade conflicts since September 1986 indicates, however, that even an incremental approach to a reduction of nontariff barriers to trade would be an improvement over the status quo.

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The Prospects for Reform

Trade liberalization and agricultural policy reform are urgently needed. From a budgetary point of view, the national costs of growing protectionist policies have been enormous. The prospects for the economic development of the less-developed countries, particularly those burdened with large external debts, are not bright in the absence of trade-driven economic prosperity in the global economy. In general, the emergence of highly protectionist agricultural policies during the past decade has resulted in a gross inefficiency in resource use in the world agricultural economy. These policies also have not resolved chronic hunger and malnutrition in many parts of the world, and they have done remarkably little to resolve the more fundamental agricultural problems even in the more advanced industrial countries.

One cannot be sanguine, however, about the prospects for major reform of national agricultural policies and the liberalization of agricultural trade in the near future. A major reason lies in the fact that, as various studies have shown, the benefits of agricultural trade liberalization accrued to widely disparate groups: food consumers in Europe and Japan; farmers in the

developing countries; and taxpayers in the subsidizing countries. The costs of dismantling current agricultural support measures would be concentrated primarily among producers in the developed world whose interests in the present system are often highly entrenched.[12]

The EC's Common Agricultural Policy is deeply rooted in a set of political, economic, and social circumstances stretching back to the end of the Second World War. The Principles of the CAP are enshrined in the Treaty of Rome, the very foundation of the European Community. The EC's supranational political decisionmaking machinery is cumbersome and a consensus, when achieved among 12 very different national political systems, tends to be based on the lowest common denominator of widely disparate interests. It will be difficult to reverse or to change the complex agricultural price support programs and interventionist programs built up over the past 30 years. This is clearly evident in the prolonged and intense struggles within the EC during recent years to achieve marginal changes in prices and production control in the dairy, beef, and cereal sectors. The challenges involved in reforming the basic foundation of the CAP — a continuing objective of the United States in the GATT trade negotiations — are intimidating and contentious.

The changes required in the United States' domestic agricultural policies to comply with the objectives of the negotiating position it tabled with the GATT in 1987 are far more sweeping than anything previously dealt with in that country. The zero-subsidy objective by the year 2000, if achieved, would entail a major dismantling of U.S. agricultural policies and programs, some of which have their origins in the *Tariff Act of 1930*, in domestic agricultural legislation passed in the *Agricultural Adjustment Act of 1933*, and in the GATT waiver granted to the United States in 1955. One need only examine the congressional debates that developed around previous changes in U.S. agricultural legislation to recognize how extremely difficult it has been to achieve even modest changes in that country's long-standing agricultural policies and programs.

The record of experience relating to changes and reforms of agricultural policies and programs in other countries such as Japan and Canada is strikingly similar to that in the EC and the United States. At the best of times, incremental change and reform are difficult to achieve; major and sweeping changes in domestic agricultural policies are rare, indeed.

The Toronto Summit and Agriculture

At the Toronto Economic Summit in June 1988, expectations were high that a major impetus would be provided to the agricultural negotiations under the Uruguay Round. Of course, it was not reasonable to expect the Summit leaders to engage in detailed, technical discussions relating to agricultural trade. What had been hoped for, however, was a strong, clear, and decisive affirmation of the urgent need for agricultural trade liberalization.

The Summit *Communiqué*'s message on agricultural trade was positive but constrained by the reality that it is difficult to achieve a global consensus on national agricultural policies that vary so greatly.

> In agriculture, continued political impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of agricultural trade reform. Although significant progress was made in 1987 in the Uruguay Round negotiation, with the tabling of major proposals, it is necessary to ensure that the Mid-Term Review in Montreal in December 1988 adds impetus to the negotiations in this as in other fields. We support efforts to adopt a framework approach, including short as well as long-term elements which will promote the reform process as launched last year and relieve current strains in the agricultural markets. This would be facilitated by a device for the measurement of support and protection. Also, ways should be developed to take account of food security and social concerns. To move the issue forward, and noting among other things the diversity of our agricultural situations, our negotiators in Geneva must develop a framework approach which includes short-term options in line with long-term goals concerning the reduction of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade. The objective of the framework approach would be to make the agricultural sector more responsive to market signals.[13]

The Summit *Communiqué* represented a compromise — at the lowest common denominator —

among the negotiating positions already staked out in Geneva in 1987. The more positive, if not the more fundamental, aspect of the *Communiqué* was the emphasis it placed on the need for the development of a "framework approach." The negotiators were to develop a practical application for concepts such as the PSE and CSE measures of trade-distorting policies, to define and distinguish between national agricultural policies that are trade neutral and those that distort trade, and to refine and develop the application of the decoupling concept in the trade negotiations.

Of course, the development of a "framework approach" is a necessary step in the negotiating process. The far more fundamental challenge, however, if agricultural trade liberalization is to be achieved, is for major reform of domestic agriculture policies. The Summit leaders did not tackle this challenge.

Conclusion

Prospects appear to be bleak for agricultural trade reform, as indicated by the escalation in trade conflicts since the launching of the Uruguay Round in 1986 and by a temporary easing of subsidy pressures due to grain price increases. Some room for optimism, however, still remains. In launching the Uruguay Round, the GATT signatories acknowledged the seriousness of the global agricultural situation and their commitment to agricultural trade reform. Most, if not all, GATT members remain determined to achieve that objective. The Midterm Review in Montreal provides an opportunity both to renew that commitment and to add momentum to the negotiating process.

A recent encouraging sign is the apparent endorsement by some U.S. trade officials of the Cairns Group's proposals as the basis for further negotiations. It is not clear whether this endorsement signals that the United States is prepared to abandon its "zero-2000" position. It could, however, move the U.S. and EC negotiating stances closer together and develop some areas of common ground.

What expectations should Canadians have for progress on the agricultural trade issue in Montreal? The challenge of global trade reform is a formidable one, as events over the past decade have shown. A breakthrough at the Midterm Review is unlikely. A rededication of GATT members to agricultural trade reform, progress on the so-called framework issues, and a renewed commitment to freeze agricultural subsidies is perhaps the most that Canadians can hope for. It is possible that the Midterm Review will fall well short of even these expectations. It is important, however, that the process at least move forward, if only incrementally, to avoid a total collapse of the agricultural negotiations. Without some progress at the Midterm Review, GATT members run the risk of missing again the opportunity to bring agriculture within the rules of fair trade.

Notes

1. Organisation for Economic Co-operation and Development, *Monitoring and Outlook of Agricultural Policies, Markets and Trade* (Paris, May 1988).

2. D. Gale Johnson, Kenzo Hemmi, and Pierre Lardinois, *Agricultural Policy and Trade*, A Task Force Report to the Trilateral Commission (New York: New York University Press, 1985).

3. A more precise and detailed explanation of the methods used in calculating the variable import levy is outlined in AgraEurope, *CAP Monitor* (London, 1988).

4. Organisation for Economic Co-operation and Development, *National Policies and Agricultural Trade Country Study, Japan* (Paris, 1987).

5. G.E. Salembier, A.R. Moroz, and F. Stone, *The Canadian Import File: Trade, Protection and Adjustments* (Montreal: Institute for Research on Public Policy, 1987); Organisation for Economic Co-operation and Development, *National Policies and Agricultural Trade Country Study, Canada* (Paris, 1987); Johnson, Hemmi, and Lardinois, *Agricultural Policy and Trade*.

6. M. Smith, *Increased Role for U.S. Farm Export Programs*, Bulletin No. 515 (Washington, D.C.: U.S. Department of Agriculture, Economic Research Service, April 1987).

7. U.S. Department of Agriculture, Economic Research Service, *Agricultural Outlook* (May 1988).

8. OECD, *Monitoring and Outlook of Agricultural Policies, Markets and Trade*. For a similar study carried out by the U.S. Department of Agriculture, see *Estimates of Producer and Consumer Subsidy Equivalents* (Washington, D.C.: U.S. Department of Agriculture, Economic Research Service, April 1988).

9. The OECD noted several cautions and reservations in its first report on PSEs, in *National Policies and Agricultural Trade* (Paris, 1987), pp. 103-115.

10. Michael Tracy, *Agriculture in Western Europe*, 2nd ed. (London: Granada, 1982), pp. 276ff.

11. G.C. Hufbauer and J.J. Schott, *Trading for Growth: The Next Round of Trade Negotiations* (Washington, D.C.: Institute for International Economics, 1985).

12. See, for example, Rod Tyers and Kym Anderson, "Liberalizing OECD Agricultural Policies in the Uruguay Round," *Journal of Agricultural Economics* 39 (May 1988).

13. "Toronto Summit Communiqué," *IMF Survey* (Washington, D.C., International Monetary Fund), June 27, 1988.

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